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Report Highlights:

On January 23, 2003, the Russian Federation announced the creation of tariff rate quotas (TRQs) on beef and pork imports. The yearly TRQs were set at 450,000 MT for imports of pork and 420,000 MT for beef, though the pro rated 2003 quota will be 337,000 MT and 315,000 MT, respectively. Russian production of pork is forecast to increase by six percent in 2003, while beef production is forecast to fall by two percent. As domestic production is not forecast to be greater than the reduced level of imports, consumption of beef and pork is expected to fall in 2003.

Includes PSD changes: Yes

Includes Trade Matrix: No

Semi-Annual Report

Moscow [RS1], RS

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Executive Summary

On January 23, 2003, the Russian Federation announced the creation of tariff rate quotas (TRQs) on beef and pork imports to go into effect on April 1, 2003. The yearly TRQs were set at 450,000 MT for imports of pork and 420,000 MT for beef, though the pro-rated 2003 quota will equal 337,500 MT and 315,000 MT, respectively. Russian production of pork is forecast to increase by six percent in 2003, to 1.73 million metric tons (MMT), due to continuing investment into infrastructure and better animal management practices. However, beef production is forecast to continue its nearly decade-long fall, by two percent in 2003, to 1.7 MMT. Total imports of pork in 2003 are forecast to decrease by 20 percent, to 600,000 MT, while imports of beef are forecast to decrease only slightly to 750,000 MT. As imports are forecast to decrease and domestic production is not expected to be able to completely substitute for the import decline, consumption of beef and pork is expected to fall slightly in 2003.

Production

All aspects of pig production are forecast to grow in 2003, with the pig crop, slaughter, and ending inventories up by eight, eight, and four percent, respectively. Consequently, pork production is forecast to grow by six percent in 2003. Pork production is currently realizing the benefits of the significant investments that have gone into the industry in the past few years. These investments have been primarily in the areas of ration/nutritional improvement, capital investment, and management. Russian pig producers are making strong improvements in breeding and animal husbandry resulting in higher pig birth and weaning rates. Additionally, expertise in developing better feed rations is also helping the productivity of pig raising enterprises. However, room for more improvement is evident. While a handful of the best producers are starting to reach Western levels of efficiency, there are many large and medium producers that are just beginning the long process of step-by-step efficiency gains and herd increases.

However, it also must be noted that about 50 percent of pork production is still on small scale farms and household plots. These are often small rural plots or owned by workers of bigger livestock or other agricultural enterprises who maintain their personal production as a safety net against wage arrears and general economic hardship in the agricultural sector. Recently, this group has not increased production (it has even reduced slightly) because many of the bigger farms are now paying salaries on time and providing workers and local markets with pork on a consistent basis. In terms of efficiency gains, no real improvement is expected from these small producers because efficiency is not the goal, rather family food security. Thus, a gulf between the large-scale efficient producers and small scale producers is growing in terms of modern production methods and profitability. If the large scale Russian livestock sector stabilizes and can become a consistent supplier of meat in sufficient quantities to the domestic market, the role of small and family farm produced pork will likely be smaller.

Alternatively, the cattle situation is forecast to continue deteriorating in 2003. Ending cattle inventories, calf crop, and slaughter are forecast to contract by five, four, and six percent, respectively. As a result, beef and veal production in 2003 are forecast to decrease by two percent. Despite the import restrictions on beef and some bright spots in the cattle breeding sector, recovery in the beef sector is still several years away. While this trend has been evident for years, some regions were hit by drought in 2002 and the reduction in fodder has forced the slaughter of a greater than expected number of cattle. Unlike the pork sector, which has been able to take advantage of abundant and cheap grain, the dependance of cattle on these other, additional, feed sources will lead to the decrease in cattle ending

inventories again in 2002 and 2003.

Table 1. Sales of Meat and Poultry for Slaughter (January-September 2001-2002), 1,000 MT live weight

	Jan-September, 2001	Jan-Sept 2002
Cattle	958	997
Hogs	415	466
Sheep and goat	24	23
Poultry	643	731
Other	12.9	13

Table 2. Russian Production of Processed Meat Products (January-September 2001-2002), 1,000 MT

	Jan-Sept 2001	Jan-Sept 2002
Meat offal, Grade 1	891	1009
Sausage	905	1063
Prepared meat products	216	248
Canned meat, mln standard cans	340	364

Source: State Statistics Committee of Russia

Industry Developments

Eksima, a multi-profile agriculture company based in Moscow, is developing a program to increase meat product output by investing \$120 million. Part of this investment will be used to develop the company's Mikoyan meat processing plant in Moscow which currently holds about eight percent of the Russian meat market, but is aiming for a 20 percent share by 2010.

Mikoyan produced 90,000 tons of meat products in 2002, versus 74,000 in 2001. By 2005 and 2010, production is projected at 180,000 tons and 300,000 tons, respectively. To achieve this increased production, the company will introduce new production facilities and start producing meat products at its Cherkizovsky dairy combine. Eksima is currently holding talks with five regional meat producers in order to increase its raw product base. Currently, Eksima includes the Mikoyan, Filonovsky (Volgograd), Buturlinovsky (Voronezh) and Svetlograd (Stavropol) meat processing plants.

Agros, an agribusiness company founded by Russian holding company Interros last year, has decided to sell the hog farming company "Ilyinogorskoye" in Nizhny Novgorod to the Russian company Planeta Management. Planeta Management is one of the biggest players on the Nizhny Novgorod food market. Planeta Management was set up in April 2001 by former managers from the Sibneft oil company. It pursues investment projects in the meat and dairy industry, and in retail trade. The money Agros received from the sale will be used to modernize and acquire meat

processing plants and chicken farms in southern and northwestern regions of

Russia. The value of the deal has not been disclosed, but Ilyinogorskoye has capacity to raise 216,000 hogs and produce 25,000 tons of meat per year.

Table 3. Production, Supply, and Distribution of Beef and Veal

PSD Table						
Country:	Russian Federation			1.42	<-Conversion factor for CWE	
Commodity:	Cattle	Meat, Beef&Veal				
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	9970	9970	9780	9850	9490	9660
Beginning Stocks	0	0	0	0	0	0
Production	1760	1760	1730	1740	1670	1700
Intra EC Imports	0	0	0	0	0	0
Other Imports	650	650	700	760	740	750
TOTAL Imports	650	650	700	760	740	750
TOTAL SUPPLY	2410	2410	2430	2500	2410	2450
Intra EC Exports	0	0	0	0	0	0
Other Exports	6	6	5	5	5	5
TOTAL Exports	6	6	5	5	5	5
Human Dom. Consumption	2339	2339	2365	2435	2350	2395
Other Use, Losses	65	65	60	60	55	50
TOTAL Dom. Consumption	2404	2404	2425	2495	2405	2445
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2410	2410	2430	2500	2410	2450
Calendar Yr. Imp. from U.S.	0		0	0		
Calendar Yr. Exp. to U.S.	0		0	0	0	

Table 4. Production, Supply, and Distribution of Swine Meat

PSD Table						
Country:	Russian Federation			1.42	<-Conversion factor for CWE	
Commodity:	Meat, Swine					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Slaughter (Reference)	28190	28190	29000	29500	31000	31800
Beginning Stocks	0	0	0	0	0	0
Production	1560	1560	1600	1630	1700	1730
Intra EC Imports	0	0	0	0	0	0
Other Imports	560	560	700	750	710	600
TOTAL Imports	560	560	700	750	710	600
TOTAL SUPPLY	2120	2120	2300	2380	2410	2330
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	1	1	1	1	1
TOTAL Exports	1	1	1	1	1	1
Human Dom. Consumption	2030	2030	2210	2290	2320	2240
Other Use, Losses	89	89	89	89	89	89
TOTAL Dom. Consumption	2119	2119	2299	2379	2409	2329
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	2120	2120	2300	2380	2410	2330
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Consumption

Consumption of beef and pork in Russia is forecast to decrease in 2003 as TRQs limit the ability of imports to fill the gap in domestic supply of meat products. Beef consumption is forecast to decrease by two percent as both imports and domestic production decrease. Pork consumption is also forecast to decrease, by two percent, as growth in domestic production falls short of replacing imports that are constrained by the TRQ.

However, with the introduction of the poultry quota and meat TRQs, it is difficult to determine the consumption picture for 2003. Prices will be in flux between the three main meats (beef, pork, and chicken) and the relative prices will play a significant role in determining consumption patterns. Consumption trends also will depend on several other factors, including the size of stocks created in the time period prior to the quota, the ability of domestic producers to fill the void, the increase in imports from Commonwealth of Independent States (CIS) suppliers who are not subject to the TRQs, and the demand shift to fish or other protein sources. Nevertheless, as demand is expected to exceed supply in

2003, a rise in the price of all meats is expected.

Consumption of meat and meat products continued to grow in 2002, by 12 percent for pork and four percent for beef, as real household incomes rose. This, along with an increase in domestic meat production and imports, allowed Russian meat processing plants to continue raising output of staple meat products. The strongest growth was in production of sausage products, which are traditionally popular in Russia.

Consumption growth was expected to continue at a rapid pace due to three key factors: price, processing, and income growth. According to Russian State Statistics Committee, meat prices in 2002 rose significantly slower (two percent) than overall food products (eleven percent). Thus, meat was more competitive relative to other food products.

Trade

Trade in 2003 will be severely affected by the TRQs that are scheduled to be introduced on April 1. Russian imports of pork are forecast to decrease by 20 percent, to 600,000 MT, in 2003 as a result of the TRQ. Pork imports will be affected more severely than beef under the import restrictions because fresh beef is excluded from the quota, while there is no such exemption for pork. Experts suggest that there is no fresh pork exemption because pork production in Russia is already rising and some level of import substitution can already take place, whereas beef production would obviously not be able to compensate for lower beef imports. Thus, this scenario reinforces the perception that the Russian government desires a more fluid import situation to try to limit price increases.

Russian pork imports in 2002 are estimated at 750,000 MT, a 34 percent increase over 2001 and seven percent greater than previous estimates. The main reasons for the increased pork imports was a very strong processing sector and the extremely brisk sales of Brazilian pork. In 2002, the proportion and absolute volume of imports from Brazil continued grew faster than expected, jumping to almost 50 percent in the first seven months of 2002 from a 28 percent import market share in the first half of 2001. Imports from the EU, meanwhile, shrank to 25 percent from 34 percent of overall pork imports.

Beef imports are forecast to decrease only slightly in 2003, despite the TRQ restriction. The market limitation is expected to be overcome by strong imports early in the year, a significant shift to fresh beef (outside the TRQ), and increased supplies from Ukraine. Specifically, Ukraine should see the benefits in the TRQs because their exports to Russia are not constrained and they would benefit from any price rise.

In 2002, Russian beef imports are estimated to have increased significantly, to 760,000 MT. This is a 17 percent increase over 2001 and a nine percent increase over previous post 2002 projections. The unexpectedly large increase in Russian imports of beef were the result of extremely strong demand in the processing, retail, and restaurant sectors and the expectation of import restrictions in 2003. Approximately 57 and 27 percent of Russian beef imports came from the European Union and Ukraine, respectively.

(Note: This report uses both official Russian import data and exporter driven data to develop the best possible picture of total Russian imports of meat.)

Table 5. Breakdown of Meat Imports by Percent of Total (January-September 2001-2002)

	Jan-Sept 2001	Jan-Sept 2002
Beef	57.5	46.3
Pork	42.1	53.3
Sheep meat	0.4	0.4

Stocks

No changes are expected for stocks of pork or beef.

Policy

On December 30, 2002, a committee on trade measures in the Ministry of Economic Development and Trade (MEDT) recommended to the Russian Government that TRQs be placed on beef and pork. On January 23, 2003, the Government of the Russian Federation adopted Resolution No. 49 and 50, changing the customs tariffs on beef and pork, thereby creating de facto TRQs. The Resolutions enter into force on April 1, 2003. The full year TRQs will be 420,000 MT for beef and 450,000 MT for pork. In 2003, the pro rated volumes for the beef TRQ will be 315,000 MT and the pork TRQ will be 337,500. The Russian Government has stated that it expects these TRQs to remain in place until 2010.

The in-quota rate for beef will be 15 percent, but not less than 0.15 euros per kilo, while the out-of-quota rate will be 60 percent, but not less than 0.6 euros per kilo. For beef, the TRQ will encompass most tariff codes in 0202. However, a notable exceptions is 0202.1, chilled/fresh beef (see Table 5 for tariff codes excluded from the TRQ).

The in-quota rate for pork will be 15 percent, but not less than 0.25 euros per kilo, while the out-of-quota rate will be 80 percent, but not less than 1.06 euros per kilo. The customs changes creating the TRQ will affect most tariff codes in the 0203 HS category for pork (see Table 6 for tariff codes excluded from the TRQ).

The legislative basis for applying TRQs is not currently in place. The relevant Tax Code and Customs Tariff amendments are under Duma consideration and are expected to receive final approval in the first quarter of 2003. However, the TRQs will be initiated using existing authority to adjust customs duties. No breakouts within the TRQs, as in the case of the poultry quota, are currently being considered. The customs code will be changed so that a new tariff line is created for each of the affected codes. In effect, one code with a lower rate and a quantitative restriction is created in addition to another code with a higher rate without a quantitative restriction. While this will not technically be considered a TRQ by Russian law, it will act as one. However, there is still impetus to finalize the relevant legislation to create a more stable legal basis for the measures.

Ninety percent of the TRQ volumes will be allocated on a pro-rated basis to historical importers. Each importer will

receive a pro-rated share of the quota based on the company's imports during the past three years. There will be no country allocation. The importer with a licence can buy the product from any country. The remaining ten percent will be auctioned, using a method to bid down the price of an import licence, rather than bid up the price (so called Dutch system). The pork auction in 2003 will equal to 33,750 MT in 34 separate lots, while the beef auction will be 63 lots for a total of 31,500 MT.

Countries, such as the CIS countries, that have preferential trade agreements with Russia will not be included in the TRQs. This will precipitate significant increases in the exports of meat from Ukraine and possibly Kazakhstan to Russia. The administration of licenses will also be under MEDT's authority. MEDT will conduct an annual review of the effectiveness of the TRQs in the fourth quarter of each year and will make changes as necessary. No specific description has been given regarding plans for the lowering of the out of quota tariff or the increasing of the volume limitation over time.

Significant uncertainty remains regarding several aspects of the TRQs. First, import permits issued from January 1-30 were cancelled by the Ministry of Agriculture on January 31. This action was reportedly done so that new permits could be issued for the interim period prior to the quota, from February 4 to March 31. Though Russian authorities have stated that product that has left port for shipment to Russia prior to February 4 will not be denied entry based on the old permit, as even a short delay will inhibit the ability of exporters to utilize the short time frame prior to the TRQ. It is unclear whether the Ministry of Agriculture can re-issue permits quickly enough, though preliminary information shows that import permits are starting to be re-issued in a timely manner. Secondly, TRQ administration is very complicated and a smooth implementation is desirable for imports and Russian consumers. The acknowledged difficulties the Russian Federation has had with administering the sugar TRQ is not a good example of reaching its established goals of price stability and production increases. Price stability is an expressly stated goal of the Russian Government for the beef and pork TRQs and the poultry quota and this will be key in terms of affecting consumer purchasing power and demand. Third, there is no clarity as to how MEDT import licences and Ministry of Agriculture import permits will interact to impede trade. Lastly, with the implementation of TRQs and quota, the price relationship between poultry, beef, and pork may change and alter the relative demand among the meats. All of these factors will have a significant influence on the production, supply, and distribution of poultry for the next several years. These issues are significant in terms of internal pressure for the Russian government to change or expand the TRQs in the future in order to limit consumer impact.

Table 5. Appendix 1 of Russian Federation Resolution No. 49 of January 23, 2003

Sub-positions excluded from the Classification of Commodities Applicable
in Foreign Economic Activity of the Russian Federation (Tariff Codes Excluded from the Beef TRQ)

	Position (Commodity)
0202.10.000.0	- - carcasses and half carcasses
0202.20.100.0	- - compensated quarters
0202.20.300.0	- - undivided or divided front quarters
0202.20.500.0	- - undivided or divided hind quarters
0202.20.900.0	- - other
0202.30.100.0	- - front quarters, whole or cut into a maximum of five pieces, with each quarter presented as one block; «compensated» quarters presented as two blocks, one of which contains the front quarter, whole or cut into a maximum of five pieces, and the other the hind quarter, with the exception of fillet steak, in one piece
0202.30.500.0	- - shoulder, neck-shoulder part and breast
0202.30.900.0	- - other

Table 6. Appendix 1 of Russian Federation Resolution No. 49 of January 23, 2003

Sub-positions excluded from the Classification of Commodities Applicable in Foreign Economic Activity of the Russian Federation (Tariff Codes Excluded from the Pork TRQ)

Classification Code (TN VED)	Position (Commodity)
0203.11.1000	- - - hogs
0203.11.9000	- - - other
0203.12.1100	- - - - legs and cuts from them
0203.12.1900	- - - - shoulders and cuts from them
0203.12.9000	- - - other
0203.19.1100	- - - - front flanks and cuts from them
0203.19.1300	- - - - loins and cuts from them, uncoated
0203.19.1500	- - - - breasts with layers and cuts from them
0203.19.5500	- - - - - de-boned
0203.19.5900	- - - - - other
0203.19.9000	- - - other
0203.21.1000	- - - hogs
0203.21.9000	- - - other
0203.22.1100	- - - - legs and cuts from them
0203.22.1900	- - - - shoulders and cuts from them
0203.22.9000	- - - other
0203.29.1100	- - - - front flanks and cuts from them
0203.29.1300	- - - - loins and cuts from them, bone-in
0203.29.1500	- - - - breasts with layers and cuts from them
0203.29.5500	- - - - - de-boned
0203.29.5900	- - - - - other
0203.29.9000	- - - other

Table 6. Production, Supply, and Distribution of Swine

PSD Table						
Country:						
Commodity:	Swine, number					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
TOTAL Beginning Stocks	15780	15780	16570	16570	18000	17500
Sow Beginning Stocks	3070	3070	3200	3200	3300	3310
Production (Pig Crop)	32150	32150	35200	35200	37900	38000
Intra EC Imports	0	0	0	0	0	0
Other Imports	35	35	35	35	35	35
TOTAL Imports	35	35	35	35	35	35
TOTAL SUPPLY	47965	47965	51805	51805	55935	55535
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	1	1	1	1	1
TOTAL Exports	1	1	1	1	1	1
Sow Slaughter	0	0	0	0	0	0
OTHER SLAUGHTER	28190	28190	29000	29500	31000	31800
Total Slaughter	28190	28190	29000	29500	31000	31800
Loss	3204	3204	4804	4804	5534	5534
Ending Inventories	16570	16570	18000	17500	19400	18200
TOTAL DISTRIBUTION	47965	47965	51805	51805	55935	55535
Calendar Yr. Imp. from U.S.						
Calendar Yr. Exp. to U.S.						

Table 7. Production, Supply, and Distribution of Cattle

PSD Table						
Country:	Russian Federation					
Commodity:	Cattle, numbers					
		2001		2002		2003
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2001		01/2002		01/2003
Total Cattle Beg. Stks	25500	25500	24510	24510	23630	23500
Dairy Cows Beg. Stocks	12500	12500	12300	12200	12000	11700
Beef Cows Beg. Stocks	0	0	0	0	0	0
Production (Calf Crop)	9450	9450	9300	9220	9100	8850
Intra EC Imports	0	0	0	0	0	0
Other Imports	9	9	12	12	14	14
TOTAL Imports	9	9	12	12	14	14
TOTAL SUPPLY	34959	34959	33822	33742	32744	32364
Intra EC Exports	0	0	0	0		
Other Exports	3	3	4	4	4	4
TOTAL Exports	3	3	4	4	4	4
Cow Slaughter	1820	1820	1780	1800	1660	1700
Calf Slaughter	0	0	0	0	0	0
Other Slaughter	8150	8150	8000	8050	7830	7960
Total Slaughter	9970	9970	9780	9850	9490	9660
Loss	476	476	408	388	400	350
Ending Inventories	24510	24510	23630	23500	22850	22350
TOTAL DISTRIBUTION	34959	34959	33822	33742	32744	32364